

**UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
Bismarck, North Dakota**

SUBJECT: Memorandum of Understanding (Memorandum) between Bank of North Dakota (BND) and Rural Utilities Service (USDA Rural Development)

I ORGANIZATION: The water system loan and/or grant program is administered by the Business and Community Program Staff of Rural Utilities Service, an Agency of the USDA Rural Development mission area.

II GENERAL: USDA Rural Development lending policies as related to water system loans and/or grants provide for combined funding of projects to provide the needed credit to the applicant at the most equitable terms and also to make more total credit available. This Memorandum is entered into for guidance and instructions for processing combined loans under North Dakota Century Code Chapter 6-09.5, Community Water Facility Loans, between the Bank of North Dakota and USDA Rural Development.

III POLICIES:

- A USDA Rural Development basic policies will apply when processing and making loans.
- B BND will have a pro rata lien on loans made under this Memorandum. BND's Note and Mortgage/Bond/Warrant will not provide any conditions which are in conflict with USDA Rural Development's Note and Mortgage/Bond/Warrant.
- C The applicant will make an annual payment as set out in the Note/Bond/Warrant to the Bank of North Dakota. The applicant will provide for a debt service account to provide that the necessary funds will be available.

IV ELIGIBILITY:

- A Applicants filed with USDA Rural Development will be analyzed to determine which ones would benefit from combined funding. These applications will then be referred to BND.
- B BND will fund as requested all applications that comply with the conditions of USDA Rural Development and NDCC Chapter 6-09.5, Community Water Facility Loans, and funds being available.
- C As necessary, BND and USDA Rural Development will discuss each applicant considered for combined funding.
- D If BND is willing to proceed, they will advise the applicant in writing with a copy to USDA Rural Development.

V LOAN PROCESSING:

- A Loans will be processed using USDA Rural Development procedures and policies.
- B Applicants will meet all legal and regulatory requirements for each lender.
- C BND will issue a written Commitment Letter and USDA Rural Development will issue written a Letter of Conditions stating the amount of each loan and the applicable conditions.

VI LOAN CLOSING:

- A BND and USDA Rural Development will agree on the time and place of loan closing. BND's Attorney will provide specific loan closing instructions to the applicant with copies provided to USDA Rural Development and the Applicant's Attorney.
- B The loans will be closed simultaneously. The USDA Rural Development initial advance will be minimal. BND's funds will be used first, USDA Rural Development loan funds used next and USDA Rural Development grant funds used last, if any are involved.
- C Other funds, if available, would be used as to conditions applied.
- D The mortgages (BND and USDA Rural Development) will have clauses providing for pro rata liens.

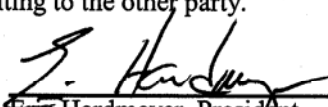
VII SERVICING:

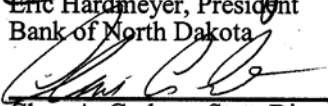
- A The loans will be serviced in accordance with USDA rural Development policy. USDA Rural Development will furnish BND a report on any special problems as soon as known.

VIII AMENDMENT AND TERMINATION: This Memorandum can be amended or revised at any time in writing by mutual consent and will continue in effect until terminated by either party upon notice in writing to the other party.

DATED 4-21-05

DATED 4/25/05


Eric Hardmeyer, President
Bank of North Dakota


Clare A. Carlson, State Director
USDA Rural Development
North Dakota